BEARCAT EXPLORATIONS LTD.

1998 ANNUAL REPORT

Corporate Information

Head Office:
1700, 520 - 5th Avenue S.W.
Calgary, AB T2P 3R7
Phone: (403) 265-6161
Fax: (403) 265-0893
email: main@bearcat.ab.ca
website: http://www.bearcat.ab.ca

Officers:
J.W. McLeod - President
M.J.S. Hunt - Treasurer
P.A. de Bruycker - Secretary

Directors:
J.A. Downing
M.J.S. Hunt
R.B. Furukawa
D.V. McCaffery*
J.W. McLeod*
F.H. Peacock*
*Audit Committee

Auditors:
McCallum, Stitt Associates
1002 - 14th Avenue S.W.
Calgary, AB T2R 0P1

Bank:
Canadian Western Bank
606 - 4th Street S.W.
Calgary, AB T2P 1T1

Legal Counsel:
Bennett Jones
4500, 855 - 2nd Street S.W.
Calgary, AB T2P 4K7

McCaffery Goss Mudry
2200, 736 - 6th Avenue S.W.
Calgary, AB T2P 3T7

Transfer Agent & Registrar:
Montreal Trust Company of Canada
600, 530 - 8th Avenue S.W.
Calgary, AB T2P 3S8

Stock Exchange & Trading Symbol:
The Alberta Stock Exchange - BEA

Annual General Meeting

The Annual General Meeting of the Shareholders of Bearcat Explorations Ltd. is to be held at 10:30 a.m. on Friday, June 4, 1999, in the Eau Claire South Room of the Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta.

COVER:

IMP Berkley Turner Valley
2-21-21-3 W5M
September, 1998 production test

Report to the Shareholders:

The year, 1998, had been one of great expectations related to the Company's Turner Valley project but at the same time it contributed to a very unique experience in corporate frustration. During the past year, the following information has been treated by the Farmor group (Bearcat Explorations Ltd., Stampede Oils Inc., Curlew Lake Resources Inc. and Panda Petroleums Ltd.) on a low profile basis, as much as possible, with the hopes that in doing so, approval for the drilling license of the **Stampede et al TV 11-15-21-3 W5M** offset location to the **IMP Berkley Turner Valley 2-21-21-3 W5M** Turner Valley gas discovery well would be acquired without related delay complications. However, unfortunately, to date this has not been the case.

After approximately 4.5 months of attempting to address and alleviate purported objections by an apparently well orchestrated block of area residents, Stampede, the operator for the Farmor group for the Turner Valley project, was finally in a position to submit to the Alberta Energy and Utilities Board (EUB) an application for the drilling license on October 23, 1998. Subsequently, the EUB finally set a public hearing date of April 13, 1999, to process the application. However, at the request of one of the objectors, Mr. R. Cones, President of Rio Alto Exploration Ltd., as he apparently was to be out of the country on April 13, 1999, the EUB, against the express wishes of the Farmor group, deferred the hearing for the Stampede et al TV 11-15-21-3 W5M well to June 1, 1999, approximately eleven months from the date when the related resident information package was distributed to the area residents!

The Company therefore considers, that as efforts to prevent delays in obtaining the necessary drilling license for the 11-15 offset well to the Imperial discovery well unfortunately have not been successful, and as the related events are extremely unique, corporately, it is in the BEST INTERESTS of all Bearcat shareholders to be made aware of certain pertinent facts by way of the following GENERAL OVERVIEW:

- Imperial Oil Resources (Farmee/operator) farmed in to the Company's Petroleum and Natural Gas (P&NG) lease block in December, 1996.
- By early January, 1998, the drilling of the IMP Berkley Turner Valley 2-21-21-3 W5M test well had missed Imperial's intended primary Turner Valley overthrust gas target zone. Subsequently, on January 23, 1998, the underlying Regional Turner Valley formation anticlinal structure was drilled into, which at this location has a 50 foot gas cap overlying an indicated oil leg of approximately 50 feet.
- Despite Imperial's insistence that the entire Turner Valley reservoir in the 2-21 well is gas, it has been made aware that the Farmor group (Bearcat et al) was and still is determined to conduct an adequate test of the indicated oil zone. To allow the gas cap to be produced independent of the indicated oil leg could result in the loss of a potential **3,000,000 barrels of recoverable oil reserves (39.6° gravity)** per section, according to an in-house Company determination. Available data indicates that an oil well completed in the Turner Valley Regional formation in this area may be capable of producing anywhere from 1,000 to 2,000 barrels of oil per day (BOPD). An oil price as low as $10.00 (Cdn.) per barrel will provide for a return on investment of approximately ten months for a well producing at 1,000 barrels per day.
- Prior to the operator conducting its production test program on the 2-21 well, the governing Farmout Agreement provides that it must deliver a copy of the proposed program to the Farmor and **it must be to the reasonable satisfaction of the Farmor, however, should the Farmor be in disagreement with part of or all of the proposed test program,** it must advise the operator of such disagreement **within 24 hours** of having had the program delivered to it and should the Farmor fail to make such advisement in the prescribed 24 hours, it will be **deemed to be in agreement** with the program.

- After a full week in which the Farmor was attempting to have the operator agree to conduct an adequate test on the lower **indicated oil zone**, the planned test program for the 2-21 well was delivered to the Farmor by **fax transmission** on **Friday**, February 6, 1998, at **4:47 p.m., after the Farmor's office had closed**! As the Farmor had not been advised that the program was going to be delivered, it was only by chance that a Bearcat representative happened to return to the office at approximately 6:30 p.m. and discovered the faxed test program, which was prefaced **"...THIS PROGRAM IS FOR A SOUR GAS NEW WELL COMPLETION".**

- The next day the Farmor group hand delivered a response letter, setting out its disagreements related to the proposed testing program, to the operator's engineer at the 2-21 well site at 2:00 p.m. The operator's engineer advised that he had just been informed by telephone from the Calgary office, not to accept anything from a Bearcat/Stampede representative. However, this did not prevent the leaving of the Farmor letter in the engineering trailer, which qualified it as having been delivered! The operator did finally acknowledge receipt of this letter at approximately 4:00 p.m., Saturday, February 7th by way of a message left on the Company's answering machine.

- Rather than having to be in a position of ongoing confrontation with the operator, the Farmor group reluctantly agreed to the subsequent revised production test program in an effort to expedite having the 2-21 well put into production and with the expectancy of being able to commence the drilling of the offset Stampede et al TV 11-15-21-3 W5M location in late 1998. During this offset operation, the Farmor group intend to test the indicated lower oil zone in the Turner Valley formation to confirm this interpretation. In the event that such testing establishes that the entire Turner Valley formation in the 2-21 well is gas bearing, then the worst case scenario is that Bearcat and its partners have a significant interest in an indicated new major gas pool that could hold in excess of 1 trillion cubic feet (TCF) of potential recoverable gas reserves.

- Results from a preliminary five-day flow test in March, 1998 were very positive. Contrary to good oilfield practice the operator shut the well in for a pressure build-up test for **74 days**, though it was definitely indicated that a two-week period would be adequate and that 30 days should be a maximum period. The Farmor's engineering consultants have determined that **"...after 75 hours or slightly over three days of shut in the pressure had returned to 26046.94 kpa or 99.67% of the original pressure..."** and **"...It would appear that all information which would be of any use in reservoir analysis could have been obtained in at the most ten days of shut in..."**! The only thing accomplished by the excessively long shut-in period was a negative misconception conveyed to investors of the Farmor group of companies, as was expressed by the following quote from the internet that **"...the well must not be very good if it takes that long for the pressure to build up"**.

- The indicated oil section in the 2-21 well was subjected to oil/mud emulsion blockage as for 10 days during the open hole phase it was exposed to a very significant hydrostatic overbalance in the mud system compared to the reservoir pressure. At the end of a short clean-up operation prior to the above-mentioned five-day flow period, a production flow log demonstrated that there was some probable minor oil entry into the well bore at the end of this clean-up test.

  Analysis of two samples taken on March 5th during the clean-up flow period, prior to the five-day flow test, confirmed that the liquid recovery along with the gas flow at that time was condensate as it was 59.4° and 58.11° gravity respectively. However, an analysis of recovery liquid sampled on March 13th, day three of the five-day test, exhibited 49.2° gravity. This equates to an approximate 50/50 mix of 58° condensate and 39.6° API gravity oil. As the gravity of the recovered liquids was becoming more dense, the Farmor group was very interested to see the analysis for the fluid recovered on day five, the last day of the flow period with the expectancy of there being a much higher percentage of oil present. However, it was informed by the operator that there were no more fluid samples taken!

- In September the operator (Imperial) delivered a copy of the final completion program to the Farmor group and again **in order to expedite the commencement of production from the 2-21 well**, the Farmor agreed reluctantly to the program, though it appeared to be seriously flawed. The operator plugged back the well bore to a point approximately four feet above the top of the indicated oil zone, a procedure that would ensure that the clean-up acid squeeze process would have little to probably no effect on this zone by ensuring a concentration of the acid squeeze into the Turner Valley upper gas cap zone only. The operator's rationalization for this plug off procedure was not factual!

- The final production flow test after a brief clean-up was for a five-day period from September 5th to September 10, 1998. The well was flowed at a stabilized 2 mmcf per day, a rate which is not adequate to clean out efficiently the near well bore reservoir area at a depth of approximately 10,000 feet. Though the operator had an existing permit to flare up to a total of 45 mmcf of gas through its overall test operation, the total volume flowed during both the March and September tests did not exceed 25 mmcf of gas.

  A significant amount of spent acid water (load water) had still not been recovered in the clean-up stage but after four days of the final flow period this remaining load fluid began entering the well bore. Approximately 20% of this remaining load fluid was recovered by the end of the 5th day, demonstrating a greatly escalating recovery curve at the time when the operator shut the well in. Despite the availability of valid data to the contrary, and in spite of the day work fluid recovery tally which demonstrated otherwise, the operator was adamant that all load fluid had at this point been recovered.

  The presence of load fluid in the near well bore area of a reservoir serves as blockage to the reservoir permeability, making an accurate determination of the ultimate production flowing capability of the well impossible until such time that this excess fluid is produced out of the reservoir.

- Subsequently, after the **premature** termination of the flow period the operator then decided that the test results had demonstrated that the well did not have production flow capability sufficient to warrant putting it on production until a second well was drilled! As the Farmor had been advised that the 2-21 well was to be put into production by the end of 1998, and as they had cooperated in every manner possible with the operator to expedite the well being put into production at the very earliest possible time, and as it was now evident that the completion operation was not being conducted in accordance with good oil field practice, the Farmor had no choice but to serve the Farmee/operator with a **Notice of Default**.

  The governing Farmout Agreement provides that the Farmee must conduct operations **"...in accordance with good oilfield practice..."** and that operations **must be conducted to the reasonable satisfaction of the Farmor**. The preceding examples of Imperial being in breach of these aforementioned covenants are only some of the more blatant ones.

As most shareholders will be aware, a Notice of Default was served on the Farmee/operator on December 14, 1998. The governing Farmout Agreement provides that the Farmee has 30 days from the receipt of a Notice of Default by which to commence the remedying of such defaults. To date the basic response by the Farmee/operator has been one of stonewalling and denial.

This **"might is right"** response was not unexpected considering the size of the corporate entities involved in this matter. Four very small Canadian exploration companies versus Imperial Oil Resources, the ultimate parent company of which is **Exxon**, the largest oil and gas exploration company in the world. The fact that Imperial receives, apparently, its basic exploration directives from Houston, Texas, may also be somewhat of a contributing factor to this situation.

On April 9, 1999, documentation was delivered to the operator by which to effect a transfer of operatorship of the IMP Berkley Turner Valley 2-21-21-3 W5M well to Stampede Oils Inc., the operator of the Farmor group companies, along with advisement that the Farmee/operator has forfeited its right to earn an interest from the Farmor group in the 2-21 well and spacing unit and in the balance of all related farmout lands. The Farmor group would welcome an opportunity, should it be necessary, to demonstrate in any venue the blatant ongoing disregard that the operator has demonstrated for the provisions of the related governing Farmout Agreement, and is more than able to document all of the foregoing events as well as many more supportive examples.

As of January 12, 1999, Bearcat's interest in the 2-21 well and spacing unit is 37.2%.

Bearcat has received a fair amount of negative feedback from various investors as a result of Imperial's deliberately delaying meaningful production commencement operations for the 2-21 well and until now the Company and its partners, as stated earlier, had low profiled this problem with the expectancy that the issuance of a drilling license for the offset 11-15 location would not be unduly delayed. Hopefully the preceding dissertation will clarify shareholder concerns regarding delays to date.

Bearcat, and the rest of the Farmor group intend to pursue effecting the change of operatorship diligently and with extreme vigour.

The Company and its partners conducted two operations in the fall of last year in the Turner Valley area. Both operations, the deepening of the Stampede Bcat et al TV 7-25-20-3 W5M and the final completion operation preparatory to having the Stampede Bcat et al Hartell 4-13-19-2 W5M well on production, have been successful. Gas production from the 4-13 well and the 11-12 offset well, when drilled, will be transmitted approximately 22 miles northeast to the nearest sour gas plant capable of handling the H_2S content of the gas. Production is expected to commence by mid summer of this year.

The deepening of the 7-25 well has demonstrated the possibility of major recoverable gas reserves extending approximately 10 miles towards the Red Deer Lake area to the north/northeast.

Bearcat and its partners intend to conduct approximately seven additional Turner Valley drilling operations this year, for which two separate funding arrangements have been initiated.

It is hoped that the above dissertation, though devoid of excessive detail, together with other related segments of this report, will clarify satisfactorily for the shareholders, the magnitude of what is at stake in the Turner Valley project. The patience and support, both past and future, of all shareholders is greatly appreciated. You may rest assured that the Company will not allow **"might is right"** policy oriented entities to steam roll over the **rights** of Bearcat shareholders.

On Behalf of the Board of Directors

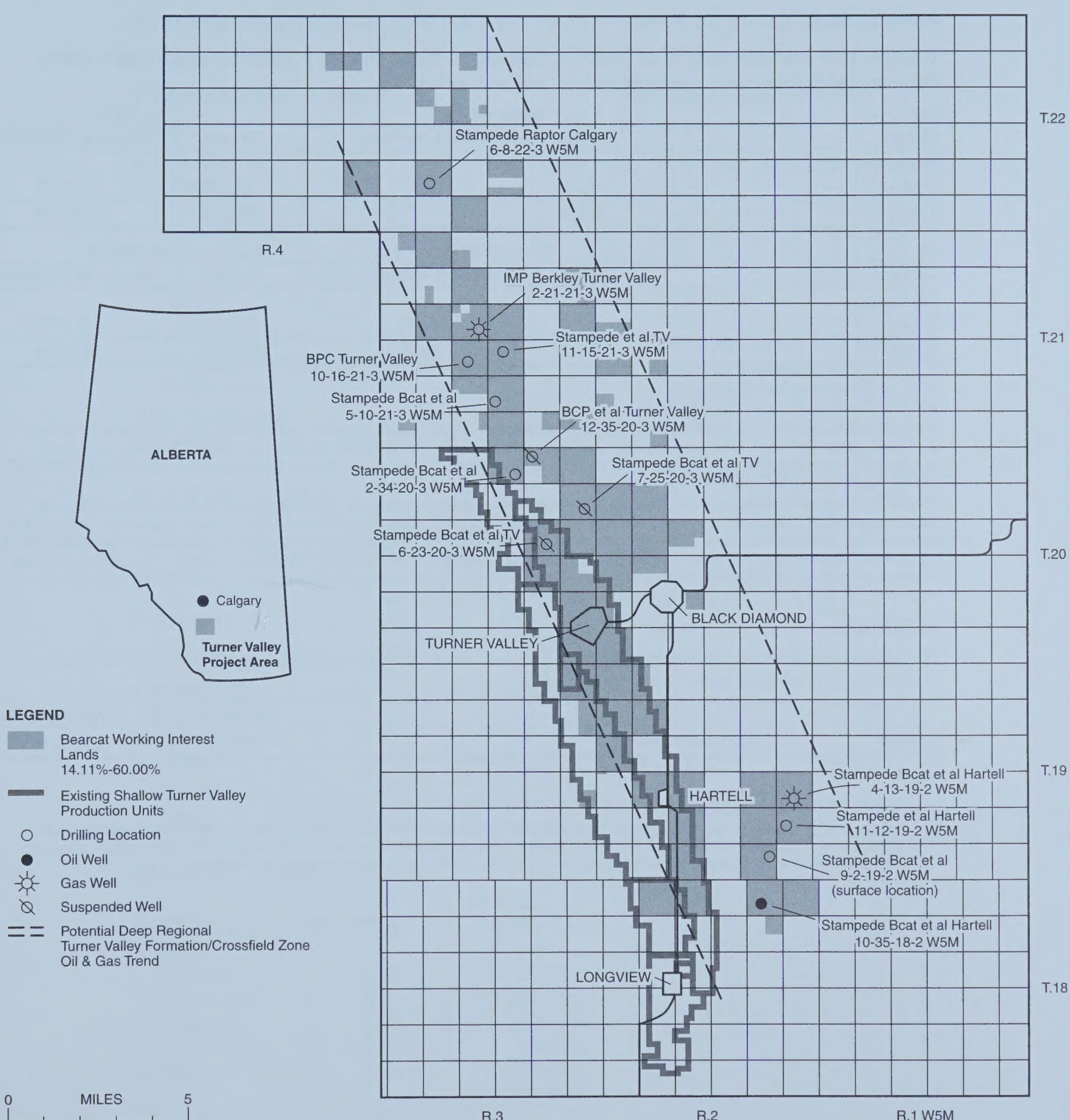
John W. McLeod

John W. McLeod

President

April 12, 1999

TURNER VALLEY OIL AND GAS PROJECT



RESERVES (as at April 12, 1999)

The total oil and gas assets of Bearcat, tabulated from in-house generated and third party determined figures, are summarized as set out below:

Gas	**Gross (BCF)**		**Net (BCF)**	
Status	**Proven**	**Proven & Probable**	**Proven**	**Proven & Probable**
Producing	0.5		.07	.10
Shut-in	82.4		21.08	933.99
Total	**82.9**		**21.15**	**934.09**

Oil	**Gross (MSTB)**		**Net (MSTB)**	
Status	**Proven**	**Proven & Probable**	**Proven**	**Proven & Probable**
Producing				
Shut-in		47,000	360.5	8,000
Total		**47,000**	**360.5**	**8,000**

BCF = Billion cubic feet of gas
MSTB = One thousand standard tank barrels

Proven Reserves are those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

Proven and Probable Reserves are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future. All probable reserve volumes and associated values have not been adjusted for engineering or geological risk.

ACREAGE

The following table summarizes the petroleum and natural gas acreage interests currently held by the Company:

	Working Interest (1)	
	Gross Acres (2)	**Net Acres (2)**
Canada	46,527.71	10,678.57

Notes:

(1) All acreage is held in the form of petroleum and natural gas leases.

(2) "Gross Acres" represents the total number of acres in which the Company has a working interest. "Net Acres" represents the aggregate working interests which the Company holds in gross acres after deduction of the working interests held by unrelated parties. Certain of the Company's acreage may be subject to royalties and other non-working interests.

ACREAGE INTERESTS (as at February 28, 1999)

Canada

PRODUCING — GAS*

Alberta

1. St. Francis
   Wells — 1
   Production zone — Belly River
   Working interest — 3.38%
   Gross acres — 640
2. Suffield
   Wells — 1
   Production zone — Medicine Hat
   Working interest — 9.375%
   Gross acres — 320

Total producing gas wells — 2

SHUT-IN — GAS

Prospect	Wells	Gross Acreage	Working Interest
Alberta			
1. Goose River	1	1,280	11.25 %
2. Highway	1	640	22.85 %
3. Millet	1	640	20.175-20.833%
4. Sundre	1	640	4.01 %
5. Turner Valley	2	36,338.21	14.90-60.00 %
British Columbia			
6. Grassy	2	697.5	11.85-26.21 %
7. Wargen	1	692	15.24 %
Total	**9**	40,927.71	

SHUT-IN — OIL

Prospect	Wells	Gross Acreage	Working Interest
Alberta			
1. Cessford	1	320	23.85%
2. Ferrier West	1	800	7.313-23.778%
3. Kavanagh	1	160	20.175-20.833%
4. Turner Valley	2	640	38.25%
5. Willesden Green	1	160	27.42% BPO 13.71% APO
Total	**6**	2,080	

PRODUCING — OIL*

Alberta

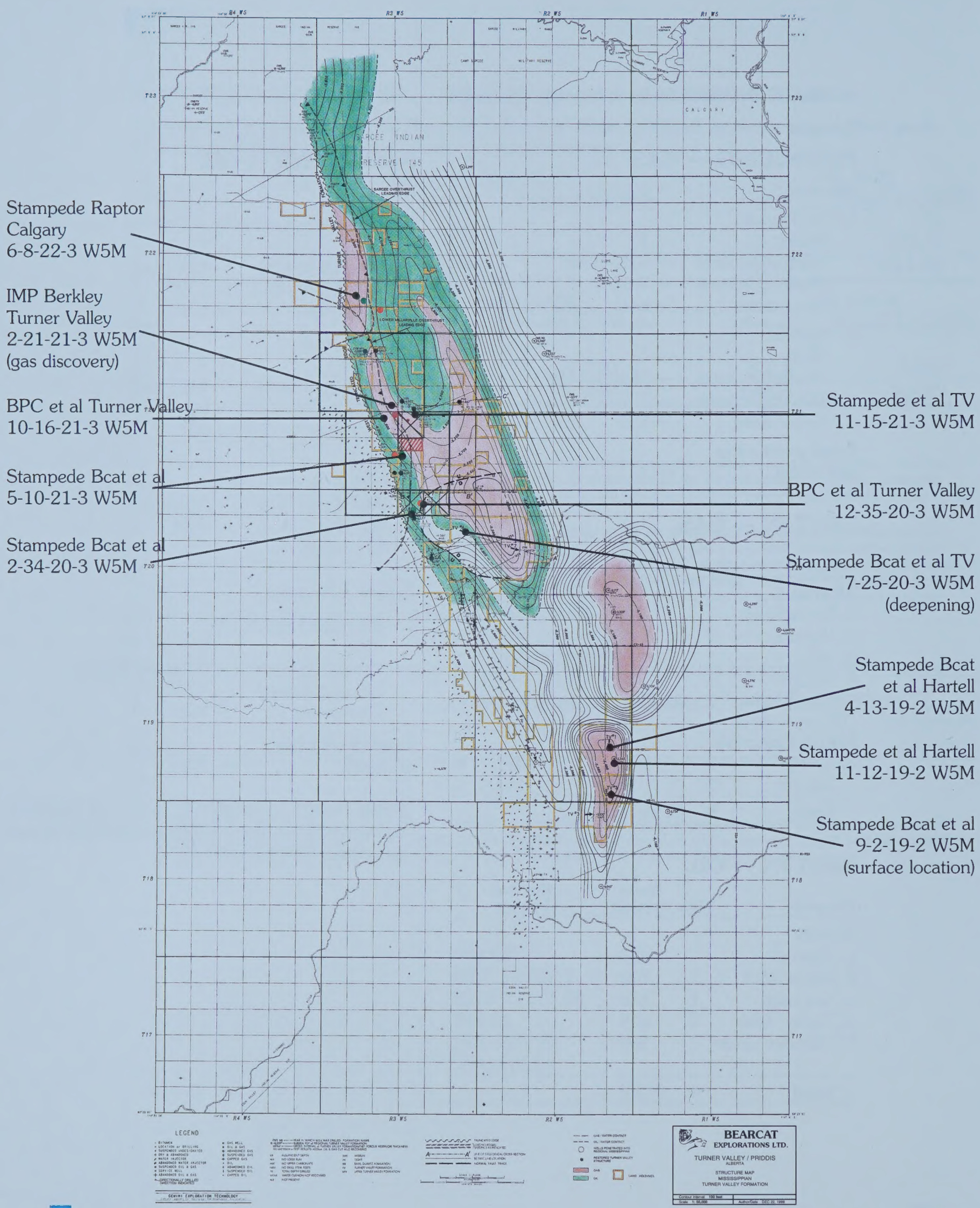
1. Minnehik - Buck Lake
   Wells — 10
   Production zone — Cardium
   Working interest — 3.38%
   Gross acres — 1,600
2. St. Francis
   Wells — 1
   Production zone — Belly River
   Working interest — 0.17% ORR
   Gross acres — 160
3. Sundre
   Wells — 1
   Production zone — Cardium
   Working interest — 4.01%
   Gross acres — 160

British Columbia

1. Boundary Lake South
   Wells — 1
   Production zone — Boundary Lake
   Working interest — 4.88%
   Gross acres — 160

Total producing oil wells — 13

*Turner Valley — 36,978.21 acres 14.112-60% (current results indicate a good potential for oil and gas production development)


Stampede Raptor Calgary 6-8-22-3 W5M
IMP Berkley Turner Valley 2-21-21-3 W5M (gas discovery)
BPC et al Turner Valley 10-16-21-3 W5M
Stampede Bcat et al 5-10-21-3 W5M
Stampede Bcat et al 2-34-20-3 W5M
Stampede et al TV 11-15-21-3 W5M
BPC et al Turner Valley 12-35-20-3 W5M
Stampede Bcat et al TV 7-25-20-3 W5M (deepening)
Stampede Bcat et al Hartell 4-13-19-2 W5M
Stampede et al Hartell 11-12-19-2 W5M
Stampede Bcat et al 9-2-19-2 W5M (surface location)
SARCEE INDIAN RESERVE 145
CALGARY
LEGEND
BEARCAT EXPLORATIONS LTD.
TURNER VALLEY / PRIDDIS ALBERTA
STRUCTURE MAP MISSISSIPPIAN TURNER VALLEY FORMATION
R4 W5
R3 W5
R2 W5
R1 W5
T23
T22
T21
T20
T19
T18
T17

OIL & GAS OPERATIONS

Oil/Gas – Turner Valley Project

1. IMP Berkley Turner Valley 2-21-21-3 W5M (now 8-21-21-3 W5M)

Completed(?) as a Regional Turner Valley gas well but to date no attempt has been made by the previous operator to place the well on production (see Report to Shareholders). The Farmor companies have initiated proceedings to take over operatorship. Technically from January 12, 1999 Bearcat's interest in this well and the related spacing unit is 37.2%.

The Company's interpretation of the deep Regional Turner Valley reservoir demonstrates potential for in excess of 500 million barrels of recoverable oil (39.6°) with 20% primary and 30% secondary recovery factors. The indicated gas cap for this formation could be in excess of one trillion cubic feet (TCF) of recoverable gas reserves.

This interpretation is based on down hole geological data, coupled with good quality seismic coverage.

2. BPC Turner Valley 10-16-21-3 W5M

This follow-up well to the 2-21 discovery well has been licensed and drilling is expected to commence in May of this year. Bearcat's geological/seismic interpretation indicates that this new well should drill into the top of the target Regional Mississippian Turner Valley formation at a slightly higher structural depth than where encountered in the discovery well.

3. Stampede et al TV 11-15-21-3 W5M

The surface location for this well in 15-15-21-3 W5M is approximately one mile due west of the 2-21 discovery well and the planned offset 10-16 well. An EUB board hearing is scheduled for June 1st of this year to consider objections to the drilling license application.

4. BPC et al Turner Valley 12-35-20-3 W5M

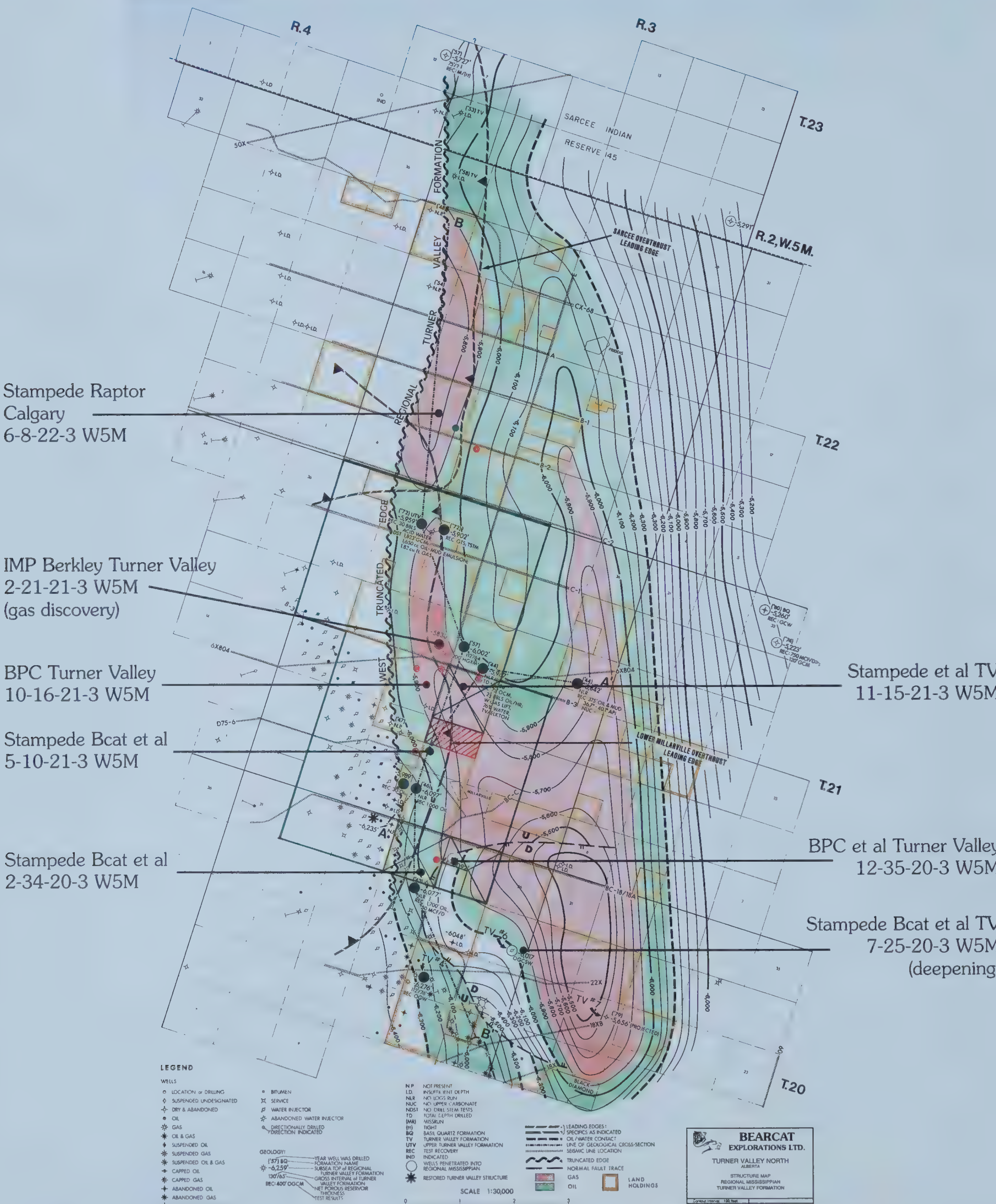
This well has been classified as a suspended Cretaceous Brown Sand gas well. The operator indicated that it intended to whipstock the well to another location, but never informed the Farmor (Bearcat et al/40% working interest participants) as to any detail.

5. Stampede Bcat et al TV 7-25-20-3 W5M

This well was deepened in the fall of last year, from the previously suspended total depth in the top of the Regional Turner Valley formation down into and through the base of the underlying Devonian Crossfield member. A maximum thickness of 79.7 metres (261 feet) of Crossfield formation was encountered at this location with approximately 69 metres (221 feet) of net reservoir. The upper 13.66 metres (45 feet) which is indicated to be gas bearing will be production tested this year.

The results of this deepening operation have determined that the underlying Devonian structure is probably a northern extension of the Turner Valley south pool in which the Stampede Bcat et al Hartell 4-13-19-2 W5M gas well is located, and that the structure trends north-northeast in the direction of Red Deer Lake.

A gas water contact has been interpreted from the 7-25 deepening for this north pool and it is expected to contain recoverable gas reserves in the magnitude of 1.5 TCF.


Stampede Raptor
Calgary
6-8-22-3 W5M
IMP Berkley Turner Valley
2-21-21-3 W5M
(gas discovery)
BPC Turner Valley
10-16-21-3 W5M
Stampede Bcat et al
5-10-21-3 W5M
Stampede Bcat et al
2-34-20-3 W5M
Stampede et al TV
11-15-21-3 W5M
BPC et al Turner Valley
12-35-20-3 W5M
Stampede Bcat et al TV
7-25-20-3 W5M
(deepening)
R.4
R.3
R.2,W.5M.
T.23
T.22
T.21
T.20
SARCEE INDIAN
RESERVE 145
SARCEE OVERTHRUST
LEADING EDGE
LOWER MILLARVILLE OVERTHRUST
LEADING EDGE
REGIONAL TURNER VALLEY FORMATION
WEST TRUNCATED EDGE
LEGEND
WELLS
BEARCAT
EXPLORATIONS LTD.
TURNER VALLEY NORTH
ALBERTA
STRUCTURE MAP
REGIONAL MISSISSIPPIAN
TURNER VALLEY FORMATION
SCALE 1:30,000

6. **Stampede Bcat et al Hartell 4-13-19-2 W5M**

   The final completion operation preparatory for having this well placed on production was commenced in December, 1998 and completed on February 12, 1999. Once final clean-up has been effected in the near well bore reservoir, preliminary results indicate the well will be capable of in excess of 5 million cubic feet (mmcf) a day gas production.

   The Company and its partners have arranged for pipeline access to the nearest suitable gas plant, approximately 22 miles to the northeast.

7. **Stampede et al Hartell 11-12-19-2 W5M**

   An application for approval to deepen the offset 11-12 well, located across the highway from the 4-13 gas well, has been submitted to the EUB. The 11-12 is currently suspended in the Regional Shunda formation underlying the Regional Turner Valley. This operation is expected to take from two to three weeks and will be completed in a manner which should allow a gas production rate in excess of 10 mmcf per day. Both the 4-13 and the 11-12 wells should be on production by early July of this year.

Other Planned Operations

1. **Stampede Raptor Calgary 6-8-22-3 W5M**
   Objective - Regional Turner Valley — Oil
2. **Stampede Bcat et al 2-34-20-3 W5M**
   Objective - Regional Turner Valley — Oil
3. **Stampede Bcat et al 5-10-21-3 W5M**
   Objective - Regional Turner Valley — Oil
4. **Stampede Bcat et al 9-2-19-2 W5M**
   Objective - Regional Crossfield — Gas

The Company to date has been involved in nine major drilling, testing and completion operations in the Turner Valley area since 1993, equivalent to a time period of approximately three years of continuous operation, all without mishap, with the minor exception of a 2 hour grass fire on the last day of the completion/test operation of the Stampede Bcat et al Hartell 4-13 Crossfield gas well in February of this year.

TELEPHONE (403) 228-2548
FAX (403) 244-3625

1002 - 14TH AVENUE S. W.
CALGARY, ALBERTA T2R 0P1

McCallum, Stitt Associates
CHARTERED ACCOUNTANTS

Associates in the practice of Public Accounting
GORDON H. STITT *
JAMES MCCALLUM *
* *Denotes Professional Corporation*

AUDITORS' REPORT

To the Shareholders of Bearcat Explorations Ltd.

I have audited the consolidated balance sheets of Bearcat Explorations Ltd. as at November 30,1998 and November 30, 1997 the consolidated statements of operations, accumulated deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 1998 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

James McCallum

April 10, 1999
Calgary

James McCallum
Chartered Accountant

Consolidated Balance Sheet

	November 30	
	1998	1997
ASSETS		
Current		
Cash and short-term deposits	$ **175,409**	$ 207,767
Marketable securities	**68,046**	201,546
Receivables (Note 9)	**309,436**	507,801
Prepaid expenses	**11,256**	20,963
	564,147	938,077
Loans receivable (Note 9)	**655,745**	21,175
Investment in and advances to Stampede Oils Inc. (Note 3)	**921,915**	921,856
Property and equipment (Note 4)	**8,724,528**	6,847,017
	$ 10,866,335	$ 8,728,125
LIABILITIES		
Current		
Payables and accruals	$ **1,108,254**	$ 1,205,850
Payable to Stampede Oils Inc.	**369,663**	—
Expenditures to be incurred on behalf of investors (Note 5)	**83,331**	120,331
Current portion of deferred tenant inducement	**29,170**	29,170
	1,590,418	1,355,351
Deferred tenant inducement	**19,447**	48,617
Deferred revenue (Note 6)	**1,203,656**	1,203,656
	2,813,521	2,607,624
Shareholders' Equity		
Capital stock (Note 7)	**53,388,695**	50,070,706
Accumulated deficit	**(45,335,881)**	(43,950,205)
	8,052,814	6,120,501
	$ 10,866,335	$ 8,728,125

Going concern assumption (Note 1)
Commitments (Note 10)
Contingent liabilities (Notes 6 & 11)

On behalf of the Board:

Director

Director

Consolidated Statement of Operations

	Year Ended November 30	
	1998	**1997**
Revenue		
Oil and gas sales — net	**$ 23,733**	$ 46,339
Pipeline tariff revenue	**—**	1,856
Other	**31,450**	21,703
	55,183	69,898
Expenses		
Production	**87,808**	50,064
Interest	**23,039**	25,410
Administration and general	**697,266**	670,218
Write down to reflect impairment of marketable securities	**133,500**	44,018
Depletion and depreciation	**44,246**	45,272
Write down of investment in Stampede Oils Inc.	**455,000**	—
Loss on sale of Stampede Oils Inc. shares	**—**	82,835
	1,440,859	917,817
Loss for the year	**$(1,385,676)**	$(847,919)
Loss per share	**$ 0.024**	$ 0.016

(Going concern assumption (Note 1))

Consolidated Statement of Accumulated Deficit

	Year Ended November 30	
	1998	**1997**
Accumulated deficit, beginning of year	**$(43,950,205)**	$(43,102,286)
Loss for the year	**(1,385,676)**	(847,919)
Accumulated deficit, end of year	**$(45,335,881)**	$(43,950,205)

(Going concern assumption (Note 1))

Consolidated Statement of Changes in Financial Position

	Year Ended November 30	
	1998	**1997**
Cash applied to:		
Operating		
Loss for the year	**$(1,385,676)**	$ (847,919)
Items not affecting current cash flow		
Depletion and depreciation	**44,246**	45,272
Write down to reflect impairment of marketable securities	**133,500**	44,018
Amortization of tenant inducement	**(29,170)**	(29,110)
Write down of investment in Stampede Oils Inc.	**455,000**	—
Loss on disposal of Stampede Oils Inc. shares	**—**	82,835
Decrease (increase) in non-cash operating working capital	**73,476**	(274,836)
	(708,624)	(979,740)
Financing		
Proceeds on issue of shares	**3,317,989**	2,696,000
Investing		
Cost of property and equipment acquired	**(1,921,757)**	(289,268)
Loans receivable	**(634,570)**	(1,309)
Proceeds on disposal of property and equipment	**—**	1,579,671
Investments in and receivable from Stampede Oils Inc.	**(455,059)**	(956,196)
Payable to Stampede Oils Inc. (Note 5)	**369,663**	(692,242)
	(2,641,723)	(359,344)
Increase (decrease) in cash	**(32,358)**	1,356,916
Cash (deficiency), beginning of year	**207,767**	(1,149,149)
Cash, end of year	**$ 175,409**	$ 207,767

Note: Cash includes short term deposit and current portion of bank loans.

(Going concern assumption (Note 1))

Notes to the Consolidated Financial Statements

November 30, 1998

1. GOING CONCERN ASSUMPTION

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at November 30, 1998, there is a working capital deficiency of $1,026,271 and the accumulated deficit amounted to $45,335,881. Further, as explained in Note 6, the Company is in a legal dispute pertaining to a Gas Dedication and Delivery Agreement dated July 15, 1994. Management's opinion is that it has not breached any provisions of the aforementioned agreement and that the legal dispute is not warranted.

The Company's continued existence as a going concern is therefore dependent on the continued ability of management to raise further equity capital to successfully develop the Turner Valley oil and gas developments as well as other properties. Development of the Turner Valley project is continuing with the participation of Imperial Oil Resources Limited and Berkley Petroleum Corporation.

Because management believes that any perceived adverse conditions and events which may be contained therein and which may raise doubts about the validity of the "going concern" assumption used in preparing these financial statements will be overcome, these financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate.

If the "going concern" assumption were not appropriate for these financial statements, then material adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bearcat Explorations Inc., 323785 Alberta Ltd., 572848 Alberta Ltd. and Lumberton Mines Limited.

Oil and gas properties

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses and costs of drilling both productive and non-productive wells. Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Depletion of exploration and development costs and depreciation of production equipment is provided on the unit-of-production method based upon estimated proven petroleum and natural gas reserves.

The carrying value of the Company's petroleum and natural gas properties and production equipment, net of recorded deferred income taxes, is compared annually to an estimate of future net cash flow from the production of proven reserves using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and depreciation.

Provision is made in the accounts for estimated future net costs of well abandonments and site restoration, including removal of production facilities at the end of their useful life. Costs are based on estimates valued at year end prices and in accordance with the current legislation and industry practices. The annual provision is computed on a unit-of-production basis and is recorded as an expense for the year; the accumulated provision is classified as a non-current liability.

Mining properties

Costs of acquisition and development of mining properties are capitalized on an area of interest basis. Amortization of these costs will be on a unit-of-production basis, based on estimated proven reserves of minerals of the areas should such reserves be found. No amortization has been recorded to date. If an area of interest is abandoned the costs related thereto are charged to income in the year of abandonment.

The amounts shown for mineral properties represent costs to date, net of recoveries, abandonments and write-downs, and do not necessarily reflect present or future values.

Development of mineral properties and recovery of related costs are dependent upon capital financing arrangements, mineral market conditions, environmental considerations and general economic conditions.

Depreciation

Depreciation is provided on the declining balance basis at rates designed to amortize the cost of the assets over their estimated useful life as follows:

Pipelines	5%
Oil and gas equipment	20%
Mining equipment	20%
Office equipment and leasehold improvements	20%
Automotive equipment	30%

Joint operations

Substantially all the Company's activities are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

Marketable securities

Short-term investments are carried at the lower of cost and market value.

Long-term investments

A subsidiary of the corporation, own shares of the Company. The Company's proportionate interest in the cost of such subsidiary corporation's shares is deducted from shareholders' equity.

The Company accounts for investments in corporations over which it does not exert significant influence on the cost basis, whereby the investment is recorded at original cost. Investments in corporations over which the Company exerts significant influence are accounted for on the equity basis, whereby the investment is originally recorded at cost and adjusted to reflect the share of earnings or losses of the other corporation less any dividends received. Where there has been a loss in value of any investment which is other than a temporary decline, these investments are written down to recognize the loss.

Flow-through common shares

The Company credits the full amount of the proceeds of flow-through shares, (which transfer the deductibility of exploration expenses to the investor), to capital stock, when such expenditures have been incurred.

Financial Instruments

Financial instruments of the Company include cash, accounts receivable, substantially all current liabilities and long term debt. Unless otherwise disclosed, there are no significant differences between the carrying value of these amounts and their estimated fair values.

3. INVESTMENT IN AND RECEIVABLE FROM (PAYABLE TO) STAMPEDE OILS INC.

	1998	1997
Investment	**$ 921,915**	$897,427
Receivable (payable)	**$(369,663)**	$ 24,429

The investment consists of 6,144,826 (1997 — 5,337,523) common shares representing approximately 13% (Bearcat 5,077,331, Lumberton 1,067,495) equity interest in Stampede Oils Inc. and is accounted for on the cost basis less impairment.

The assets of Stampede Oils Inc. consists substantially of interests in mutual oil and gas and mining properties in which this Company also hold interests.

The payable is non-interest bearing, unsecured and has no specific terms of repayment. This amount relates to costs incurred by the Company as a major joint venture participant of certain oil and gas and mining properties in which Stampede Oils Inc. is the operator. The recoverability of the investment in Stampede Oils Inc. is ultimately dependent on the successful development of the Turner Valley Project.

4. PROPERTY AND EQUIPMENT

(a) **Summary**

	Cost	Accumulated Depletion and Depreciation	Net 1998	Net 1997
Oil and gas properties	$21,963,698	$13,748,322	**$8,215,376**	$6,295,720
Mining properties	38,738	—	**38,738**	38,738
Oil and gas equipment and pipeline	1,176,303	736,385	**439,918**	474,602
Mining equipment	107,804	106,551	**1,253**	1,560
Other	209,294	180,051	**29,243**	36,397
	$23,495,837	$14,771,309	**$8,724,528**	$6,847,017

(b) **Turner Valley Project**

To November 30, 1998 the company has participated in seven exploratory wells in the Turner Valley area of Alberta. Testing of one of these wells has determined the discovery of substantial natural gas reserves; however, for accounting purposes, some of these reserves are classified as proved undeveloped pending further testing and drilling of additional and existing wells necessary to validate the overall reserve assumptions and to establish sufficient productivity parameters with which to justify the expenditures required to install producing and gathering facilities.

(c) **Ceiling Test**

The Company used year end prices for oil and natural gas when calculating the ceiling test.

5. EXPENDITURES TO BE INCURRED ON BEHALF OF INVESTORS

The Company has received funds from investors to incur expenditures qualifying as Canadian Exploration Expense or Canadian Development Expense as these terms are defined in the Income Tax Act. All rights, titles, benefits and interest in any mineral interest resulting from these expenditures accrue to the Company. Income tax deductions relating to these expenditures flow through to the investors. Remaining funds to be expensed at November 30, 1998 amounted to $83,331.

6. DEFERRED REVENUE

Deferred revenue consists of advance payments received for the future delivery of gas. By a Gas Dedication and Delivery Agreement, effective from May 1, 1994, the initial obligations were replaced by the requirement for the Company to deliver 6.378303 BCF of gas at the rate of 2000 mcf of gas per day.

The Company also provided, as related collateral, a fixed and floating charge Oil and Gas Debenture in the amount of $12,000,000 over certain Turner Valley oil and gas properties.

The remaining obligation at November 30, 1998 requires the Company to deliver 4,550303 BCF of gas. The terms of the Gas Dedication and Delivery Agreement specify that the above contract's terms are satisfied by the delivery of gas to an established point of delivery as defined. The Company believes it has complied with the term of the contract by making available the required gas. However, this is disputed by the Purchaser resulting in the filing of a statement of claim requesting $2 million damages which is being defended by the Company. Management's opinion is that it has not breached any provisions of the aforementioned agreement and that the legal dispute is not warranted.

7. CAPITAL STOCK

(a) **Authorized:**

Unlimited number of common shares of no par value
10,000,000 Class A non-voting convertible preferred shares

(b) **Issued or assigned**

	1998		1997	
	Number of Shares	**Stated Value**	**Number of Shares**	**Stated Value**
Common				
Beginning of year	**55,075,787**	**$51,638,471**	45,368,567	$48,212,851
Expenditures renounced to investors (see note 7(d))	**—**	**1,086,998**	—	—
Rights offering	**1,270,160**	**809,593**	—	—
Private placements to				
— Stampede Oils Inc. issued for cash	**3,010,000**	**1,204,000**	7,800,000	2,696,000
— Other	**1,250,000**	**500,000**	—	—
Preferred shares converted to common	**179,860**	**74,501**	1,907,220	729,890
End of year	**60,785,807**	**55,313,563**	55,075,787	51,638,471
Shares held by subsidiary	**2,129,049**	**2,365,959**	1,307,449	2,083,627
	58,656,758	**$52,947,604**	53,768,338	$49,555,114
Class A Preferred Series				
Beginning of year	**89,655**	**$ 515,592**	280,377	$ 1,245,482
Preferred shares converted to common	**17,986**	**74,501**	190,722	729,890
End of year	**71,669**	**$ 441,091**	89,655	$ 515,592
		$53,388,695		$50,070,706

The preferred shares are convertible to common shares on a basis of 10 common shares for 1 preferred share.

(c) **Stock Options**

Stock options have been granted allowing directors and key employees to acquire 3,650,000 common shares at an option price of $0.50 per share, these options expire as follows:

Options on 1,333,000 common shares expiring April 9, 2002
Options on 300,000 common shares expiring September 9, 2002
Options on 300,000 common shares expiring March 29, 2003
Options on 1,717,000 common shares expiring May 27, 2003

(d) **Special Warrants**

The Company through an agreement with Triax Resource Limited Partnership dated July 14, 1997 agreed to issue 3,000,000 special warrants at $0.35 each. Each special warrant can be converted to a common share without additional payment.

The warrants (and common shares) are flow through shares with the Company renouncing Canadian Exploration expenditures and Canadian Development expenditures.

As at November 30, 1998 all funds have been received and expenditures incurred and renounced. However, no warrants had been converted to shares.

Subsequent to year end 1,560,757 warrants had been converted to common shares.

8. INCOME TAXES

The Company has accumulated non-capital losses for income tax purposes of approximately $3,485,000. These non-capital losses expire as follows:

2000	$ 425,000
2002	$1,327,000
2003	$ 547,000
2004	$ 533,000
2005	$ 653,000

In addition, resource pools of approximately $20,180,000 exist.

Undepreciated capital cost allowances available for carry forward amounts to approximately $1,830,000.

No benefits with respect to the above, have been included in these financial statements.

9. RELATED PARTY TRANSACTIONS

(a) **Receivables**

Included in accounts receivable is $236,887 (1997 — $61,955) due from corporations controlled by or affiliated with officers and directors of the Company. Such amounts arise as a result of their joint venture participation in properties operated by the Company from general and administrative cost recoveries charged to them and from other business related matters.

(b) **Loans receivable**

(i) A loan of $22,446 is receivable from an ex-director of the Company, bears interest at 6% per annum, and is repayable on demand.

(ii) Loans advanced directly and indirectly to the President of the Corporation to enable investment in his participation in the Company's rights and warrants offerings. These loans bear interest at 6% per annum and are repayable as follows:

	Principal	Accrued Interest	Total
June 14, 1999	$222,355	$68,792	$291,147
April 3, 2000	329,600	12,552	342,152
	$551,955	$81,344	$633,299

10. COMMITMENTS

Rent

The Company is obligated under a lease agreement expiring July 31, 2000 to make annual lease payments of $54,004 per annum plus occupancy costs to July 31, 1998 and thereafter at $85,184 per annum plus occupancy costs.

11. CONTINGENT LIABILITIES

Revenue Canada reassessed investors in a private placement undertaken by Lumberton Mines Limited during 1991 and 1990 to disallow certain expenditures allocated to the investors on a flow-through basis. Lumberton Mines Limited has undertaken to defend the amounts in question with Revenue Canada on behalf of the investors.

12. UNCERTAINLY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

BEARCAT EXPLORATIONS LTD.

1700, 520 - 5th Avenue S.W.
Calgary, Alberta T2P 3R7
Phone: (403) 265-6161